



## Chapter 1.2

### Activity 1.2.1

1. A 'sole trader' is a business in which one person provides the permanent finance, has full control of the business and is able to keep all of the profits.
2. A possible advantage for Helene being a sole trader could be one of the following:
  - Easy to set up
  - The owner is in control
  - The owner keeps the profit.

A possible disadvantage of being a sole trader could be one of the following:

- Unlimited liability
  - The owner is responsible for all aspects of management
  - Problems of raising finance.
3. Benefits of introducing a partner to Helene's business might include:
    - Utilising any specialist skills a partner may have
    - Additional finance
    - Shared decision-making.

### Activity 1.2.2

1. A public limited company is a business that sells shares in its organisation to the general public through a stock exchange.
2. Potential benefits of going public might be:
  - Limited liability
  - Continuity of existence
  - Access to significant finance.
3. Potential drawbacks of going public might be:
  - Legal requirements on formation and disclosure of information
  - Loss of control to shareholders
  - Risk of takeover.



## Activity 1.2.3

1. A 'cooperative' is a group of people acting together to meet the common needs and aspirations of its members, sharing ownership and making decisions democratically.
2. Reasons why a cooperative like MONDRAGON might have an advantage over a private enterprise include:
  - It can keep profits to re-invest in the organisation
  - Motivation for employees who can share in the profits
  - Easier to make long-term decisions.
3. Two disadvantages an organisation might face as a cooperative include:
  - Democratic approach slows down decision-making
  - Access to investment finance is more difficult
  - Prevents the organisation from making decisions to reduce labour costs.

## Activity 1.2.4

1. Features of microfinance loans provided by Mibanco are:
  - Loans made to individuals on low incomes
  - Loans made to small businesses
  - High interest rates
  - Small loans made.
2. Advantages of microfinance to small business might be:
  - Access to finance not available from commercial banks
  - Access to small loans
  - Favourable terms on loans in terms of interest rates and repayment periods.
3. The problems microfinance providers may face in trying to be profitable might be:
  - Non-repayment if borrowers go out of business
  - Small loans have high administrative costs per loan made
  - The high cost of obtaining capital to make loans
  - Low income of borrowers restricts the interest rates lenders can charge.

## Activity 1.2.5

1. A 'public-private partnership' (PPP) involves the private sector, in the form of management expertise and/or financial investment, in public sector projects aimed at benefiting the public.



2. Reasons why the city government decided to create Capital Waste Disposal plc as a privatised business might be:
  - To raise finance
  - To improve efficiency
  - To reduce political interference in decision-making.
3. Disadvantages of the city government privatising waste disposal might be:
  - Higher prices in the short term when government support is removed
  - Shareholders have lower profits in the short term as profits need to be invested in new capital
  - Workers may face redundancy.
4. The advantages of the public-private partnership for building a new waste recycling plant might be:
  - Access to private sector finance
  - Private sector expertise in managing the organisation
  - Private sector profits and competition create incentives for performance.

The disadvantages might be:

- Private business desire for profits might conflict with public service
- Cost cutting by the private business might lead to redundancies
- Private business may have a more short-term view than the public sector business.

## Exam practice question

1. A 'partnership' is a business formed by two or more people to carry on a business together with shared capital investment and responsibilities.
2. Benefits to Larry Page and Sergey Brin starting Google as a partnership might be:
  - Shared finance
  - Shared expertise
  - Joint involvement in decision-making.
3. Possible problems Larry Page and Sergey Brin might encounter as a partnership might be:
  - Profits are shared
  - Unlimited liability
  - Raising finance.
4. The advantages of Google converting to a public limited company in 2004 might be:
  - Limited liability
  - Continuity
  - Access to significance finance



- Separate legal identity.

The disadvantages of going public include:

- Legal requirements on formation and disclosure of information
- Loss of control to shareholders
- Risk of takeover
- Fluctuations in share price.

## Key concept question

The impact of different types of organisational ownership on business strategy might include:

- Objectives of the organisation (private business/cooperatives/public sector organisations)
- Number of owners (sole trader/plc)
- Nature of owners (private limited company/plc)
- Accountability to society (private business/public sector organisation)
- Scale of activity (sole trader/plc)
- Access to finance (partnership/plc).